

## Income and growth: Two sides to your portfolio

Your investments can provide returns in the form of either income or capital growth. The decision to opt for one source of return over the other normally stems from your tax position, your immediate requirements for cash and your long-term plans. Here are some of the unique risks and rewards associated with investing for income and capital growth.

### Regular income can provide stability

There are two primary ways to earn income: lend your funds to a borrower in return for interest and the eventual repayment of your principal, or own shares that produce dividends. The first type of security is often referred to as “fixed income” and includes bonds, debentures and mortgage-backed securities. The second type of income is derived through ownership of common and preferred shares and income trust units that distribute company profits in the form of dividends.

With income investments, there are income tax consequences to bear in mind, as well as two types of risk. The first is interest rate risk. Once you are locked into a rate of interest for a certain term, you risk the chance that market rates might rise and the rate you are earning may no longer be competitive. The longer the term of your investment, the greater the interest rate risk.

The second is credit risk - the possibility that your principal will not be repaid or that the issuer will default on interest or dividend payments. This risk can be minimized by investing in high quality instruments from secure issuers, such as the Government of Canada.

### Growth can build wealth

Investing for capital growth is vital not only to build wealth, but to protect your capital from taxes and inflation.


The most popular growth investment is common stock. Investors purchase shares in a corporation and become part owners of the company. As the company grows, profits are reinvested in the company, which can cause the shares to increase in value.

There are two primary risks to consider with common shares. The first is market risk. The market price of your investment will tend to fluctuate with the stock market as a whole, even if there have been no material changes in the company whose shares you own.

The second type of risk is specific to the company itself. If your investment portfolio consists only of stocks that are dependent on the petroleum industry, for example, any decline in oil prices will affect the value of your entire portfolio.

All of the above risks can be minimized by diversifying your investment dollars among income and growth, and among a number of different securities and even a variety of markets around the world.





A ScotiaMcLeod advisor has the knowledge, resources and team of experts to help you determine the right mix of income and growth for your portfolio, and implement a diversified strategy that carefully balances the risks and rewards.

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